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RUEHCV/AMEMBASSY CARACAS 1622
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TREASURY FOR SGOOCH
ENERGY FOR CDAY AND SLADISLAW

E.O. 12958: DECL: 06/13/2016
TAGS: ECON EFIN BL
SUBJECT: VENEZUELAN INVOLVEMENT IN BOLIVIAN BANKING

Classified By: Ambassador David N. Greenlee for reasons 1.4d and b.

¶1. (C) Summary: Venezuela has agreed to buy USD 100 million of Bolivian bonds in May to be used to finance Bolivian Treasury gaps or fund a portion of the deficit, but Finance Ministry contacts tell us that the deal is uncertain. Venezuela has also promised Bolivia another USD 100 million to provide low-interest rate loans to small business owners; contacts report that USD 30 million has been disbursed thus far. Two Venezuelan state-owned banks have expressed interest in opening branches in Bolivia, potentially through purchasing the Bolivian state-owned Union Bank. End summary.

Bolivia-Venezuela Bond Deal

¶2. (C) According to Bolivian Finance Ministry contacts, members of the Ministry traveled to Venezuela in May to negotiate a bond placement deal with the government of Venezuela. Venezuela agreed to buy USD 100 million of Bolivian bonds at the LIBOR (London Interbank Offered Rate) six-month rate, currently 5.4 percent, with a two year repayment period. Bolivian Finance Ministry contacts speculate that Venezuelan banks would profit from the deal by buying the bonds, reselling them to international investors for U.S. dollars, selling the dollars on the black market in Venezuela for Bolivars, and then selling the Bolivars to the Venezuelan Central Bank for dollars. This would imply a subsidy from the Venezuelan Central Bank to Venezuelan banks of around 20 percent. Bolivia would use the USD 100 million to help finance an expected Treasury gap or fund the anticipated fiscal deficit of around USD 270 million. However, Finance Ministry contacts told us on June 13 that the deal may not go through and no date has been set for the sale.

Venezuela-Funded Bolivian Development Bank

¶3. (C) According to press reports, the Venezuelan government recently granted Bolivia another USD 100 million to create a development bank to lend low-interest rate credit (4 percent) to micro, small, and medium enterprises. The funds are being

channeled through an existing financial institution, the Bolivian National Financier (NAFIBO). NAFIBO contracted Banco Ganadero, Prodem, and Fortaleza to provide money transfer services to beneficiaries for a less than one percent fee. Although regulations require that credit decisions be evaluated by the lending institutions, these institutions told us that the GOB said "not to worry about credit due diligence" because NAFIBO and a GOB committee would check the credit-worthiness of the borrowers. The press reported that applicants could solicit loans of up to USD 250,000, which would not require collateral but would be issued on the basis of group solidarity agreements to repay. According to banking sector contacts, NAFIBO has already disbursed USD 26 million to 214 beneficiaries identified by the executive branch, including textile and agricultural producers. Banking contacts told us that Venezuela has disbursed a total of USD 30 million to the Bolivian Central Bank to date.

Opening of Venezuelan Banks in Bolivia

¶4. (C) According to press reports, two Venezuelan state banks -- the Industrial Bank and the Economic and Social Development Bank -- plan to open branches in Bolivia. Contacts from the Banking Superintendency told us that these banks are interested in acquiring ownership interest in the Bolivian state-owned Union Bank, but have not yet begun the required procedures to purchase Union Bank or open branches. The press reported that the Venezuelan Industrial Bank had received USD 25 million from the Venezuelan government to intervene in the Bolivian financial system.

¶5. (C) Comment: Repayment rates for the "development bank" loans will likely be poor due to the lack of credit rating requirements by the actual lending institutions, the lack of collateral requirements, and the grant nature of the Venezuelan donation, which takes the pressure off of the GOB to recoup the funds. With low repayment rates, the development bank would either be short-lived or become a financial drain on the GOB as it would quickly run out of loan funds. Low repayment rates on these loans could damage the national repayment culture, while the low interest rates could impact the rest of the Bolivian banking system, including Bolivia's world-model microfinance lending system, by creating unfair competition. End comment.
GREENLEE